



Judicial Council of California
Administrative Office of the Courts

Trial Court Financial Policies and Procedures

Procedure No.
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FINANCIAL MANAGEMENT

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Financial Management

1.0 Purpose

The purpose of this policy is to establish uniform guidelines for the trial court to monitor and control its fiscal operations and publicly account for its performance in accordance with California Rule of Court No. 6.707 (provided in Appendix B).

2.0 Policy Statement

It is the policy of the trial court to employ sound business, financial and accounting practices to conduct its fiscal operations. The court shall be responsible for monitoring and controlling its fiscal operations and accounting publicly for its financial performance through:

- a. Adherence to high ethical standards.
- b. The development of a long-range strategic plan.
- c. The application of generally accepted accounting principles.
- d. The institution of a system of internal controls.
- e. The retention of financial and accounting records for appropriate periods.
- f. The issuance of financial reports that account for the court's use of public funds.

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4.0 Application

This procedure applies to all trial courts of California including their employees and agents.

5.0 Definitions

1. **Comprehensive Annual Financial Report (CAFR).** The overall fiscal report for California state government, including the state trial court system. The trial courts submit financial information to the AOC for consolidation and submittal to the state for inclusion in the State of California CAFR. The CAFR includes financial statements and supporting schedules, documentation, statistics and introductory material to demonstrate conformity to GAAP and compliance with legal requirements, rules and regulations.
2. **Generally Accepted Accounting Principles (GAAP).** Uniform minimum standards and guidelines for financial accounting and reporting that govern the form and content of the financial statements of an entity. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practices at a given time. They include not only broad guidelines of general application, but also detailed practices and procedures.

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3. **Governmental Accounting Standards Board (GASB).** The authoritative accounting and financial reporting standard-setting body for government entities.
4. **Lockyer-Isenberg Trial Court Funding Act of 1997 (AB 233).** Law enacted by the State of California legislature taking effect on January 1, 1998. Under this law, the funding of the trial courts is consolidated at the state level to ensure equal access to justice throughout California. Key provisions of the law include giving the legislature authority to make appropriations and giving the Judicial Council of California authority to allocate funds to the trial courts. (Refer to the full text of the law included in Appendix A.)
5. **Quarterly Financial Statement (QFS).** A report prepared by the trial court according to Judicial Council requirements and Government Code Section 77206, that is used to monitor the financial condition and budgeted expenditures of the trial court throughout the fiscal year.

6.0 Text

6.1 Fiscal Management Responsibilities

1. The National Center for State Courts Commission on Trial Court Performance Standards has developed 22 standards that courts can use to measure their performance. The standards fall into five performance areas that encompass the courts' fundamental purposes and responsibilities. Area 4 addresses court **independence and accountability** and states that:
“Trial courts should establish their legal and organizational boundaries, monitor and control their operations, and account publicly for their performance.”
2. The performance standards recognize the court's status as a public institution. They maintain that the court is responsible for developing

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action plans, obtaining resources for implementing the plans, monitoring its operations, and accounting publicly for its performance.

3. The 1997 passage of AB 233, which established the state's responsibility to fund the trial courts, began a new era of fiscal stability and accountability. The Judicial Council is dedicated to providing equal access to justice by fairly allocating funds to every trial court. The trial court is responsible for evaluating its needs and providing relevant workload and cost data so that the Judicial Council can establish funding priorities and compete for funds with other state programs. It is also the responsibility of the trial court to develop a long-range strategic plan for the efficient and effective use of resources, technology, and the incorporation of community needs and concerns.

6.2 Business Practices

1. Trial court business practices should be guided by ethical standards befitting the judicial branch of the state's government. Trial court management shall promote compliance with all ethical standards, applicable statutes, and financial/accounting principles when exercising authority over the collection and disbursement of public monies.
2. One of the primary purposes of AB 233 is to make the courts more financially stable. Along with financial stability, the trial court assumes new responsibilities for administrative management, providing better service to the public, and financial accountability. The Judicial Council has assured that these new challenges will be met by requiring the court to develop and maintain a long-range strategic plan. The plan must provide for the efficient, effective use of resources, the incorporation of new technology into court operations, and must address the needs and concerns of the community.

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6.3 Accounting System

1. The trial court shall utilize an efficient and organized accounting system that ensures the accurate reporting of all transactions. The court is responsible for assuring that the transactions recorded by its accounting system are supported by documentation and evidential matter that can withstand internal or external financial audits.
2. The key elements of an efficient and organized accounting system include an:
 - a. Organized and efficient method of accumulating, recording and reporting all transactions.
 - b. Effective assignment of authority and responsibility.
 - c. Effective approach to segregation of duties.
 - d. Efficient method of detecting errors and irregularities.
3. Financial transactions shall be executed and accounted for in accordance with generally accepted accounting principles (GAAP). Trial courts shall also comply with the standards and principles established by the Governmental Accounting Standards Board (GASB), statutory requirements such as the Lockyer-Isenberg Trial Court Funding Act of 1997 (AB 233), Rule of Court 810, and administrative policies and procedures that apply to trial court fiscal management.
4. Accounting practices are discussed in more detail in Section 5 of this manual.

6.4 Internal Controls

1. The trial court shall maintain an effective system of internal controls that is integral to its management practices. A satisfactory system of

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internal controls includes, but is not limited to, the following:

- a. **Segregation of Duties.** The court organization plan should provide for a proper segregation of duties that safeguards trial court assets. The objective is to eliminate or minimize opportunities to conceal errors and irregularities. Assignment of work to trial court employees should be based on the rule that no one individual controls all phases of an activity or transaction.
- b. **Standard Operating Procedures.** All trial court departments/ organizations should develop and enforce a system of operating procedures for employees to follow in performing their duties and functions. Such operating procedures should explain the implication of financial transactions and define trial court employees' responsibilities and their accountability for court resources.
- c. **Competent Personnel.** The trial court shall maintain high standards of employee competence and integrity. Competence should be established through a combination of education, training, and experience so that employees may accomplish their assigned duties in the prescribed manner and help management achieve its goals.
- d. **Transaction Authorization and Documentation.** The trial court shall establish a system of authorization that provides effective management control over assets, liabilities, revenues and expenditures. Evidence of authorization shall be maintained in the accounting files to document that:
 - i. Proper authorizations are obtained.
 - ii. Authorizations are issued by court employees acting within the scope of their authority.
 - iii. Transactions conform to the terms of the authorizations.

A matrix providing employee names, types of transactions authorized, dollar limitations on authorizations, and employee

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signatures shall be prepared and updated no less than on an annual basis.

- e. **Internal Review.** Each trial court shall establish an effective internal review system to provide checks and balances applicable to all financial transactions. An effective system of internal review includes, but is not limited to, the following:
 - i. Transaction balancing such as preparing and comparing batch totals against transaction details.
 - ii. Balancing system records against manual records.
 - iii. Independent review and approval of transactions by a supervisor.
 - iv. Periodic review of applicable accounting records against original entries for accuracy.
 - v. Periodic management review of a summary of actual expenditures and revenues against budget items for propriety and reasonableness.
 - vi. Audits conducted by the AOC Internal Audit Unit.
2. The system of internal controls should be continuously monitored, reviewed, evaluated and improved as necessary. When detected, deficiencies should be promptly corrected. This policy recognizes that the objective of an internal control system is to provide reasonable, but not absolute, assurance that assets are safeguarded and errors and irregularities are minimized. The benefits of such a system should be greater than its cost.
3. A more detailed discussion of internal controls is provided in Policy No. FIN 2.02 – Internal Controls.

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6.5 Accounting Records

1. Each trial court shall document its financial activities and maintain sufficient accounting records to:
 - a. Ensure that all transactions are properly and accurately recorded.
 - b. Provide sufficient evidence and justification for all transactions.
 - c. Maintain accountability for trial court assets and resources.
 - d. Document accountability of trial court employees who execute and process financial transactions.
 - e. Permit preparation of accurate, informative and reliable reports that conform to applicable criteria.
 - f. Support management during internal reviews and external audits.

2. Examples of financial and accounting records to be maintained by the trial court are:
 - a. Timekeeping and payroll records.
 - b. Procurement files including purchase orders and contracts.
 - c. Vendor invoices, contractor/subcontractor claims.
 - d. Employee cost reimbursement claims.
 - e. System reports including general ledgers, sub-ledgers and other reports.
 - f. Revenue collection records and applicable Case Management System reports.
 - g. Financial reports.

3. A more detailed discussion of record retention procedures is provided in Policy No. FIN 12.01 – Record Retention.

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6.6 Financial Reporting

1. The trial court is obligated to account for its use of public funds. To satisfy this obligation, the court prepares and issues periodic financial statements. The GASB Concepts Statement 1 defines the objectives of financial reporting as follows:
 - a. Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.
 - b. Financial reporting should assist users in evaluating the operational results of the governmental entity for the year.
 - c. Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.
2. Financial reports that are effective and useful exhibit certain common characteristics. As defined in GASB Concepts Statement 1, effective financial reports are understandable, reliable, relevant, timely, consistent, and comparable.
3. The primary use of trial court financial reports is to assess the court's accountability in its use of public funds. According to GASB Concepts Statement 1 financial reports accomplish this by:
 - a. Comparing actual financial results with the legally adopted budget.
 - b. Assessing financial condition and results of operations.
 - c. Assisting in determining compliance with finance-related laws, rules and regulations.
 - d. Assisting in evaluating efficiency and effectiveness.

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4. The users of financial reports issued by the trial court and other government agencies fall into three groups identified by GASB Concepts Statement 1:
 - a. Citizens, the media, advocate groups, and public finance researchers.
 - b. Legislative and oversight officials.
 - c. Investors and creditors.

5. The trial court financial reporting function includes, but is not limited to, preparation of the following reports:
 - a. Quarterly Financial Statements (QFSs) for submittal to the Administrative Office of the Courts (AOC).
 - b. Comprehensive Annual Financial Report (CAFR) financial information for submittal to the AOC.
 - c. Annual budget requests for submittal to the AOC.
 - d. Monthly Cash Settlement reports to the County to report revenue collection and distribution.

6. In addition, the court should prepare internal reports to assist it in monitoring its financial condition and fiscal operations:
 - a. Monthly summaries of financial activities and review transactions for propriety and reasonableness.
 - b. Monthly budgetary reports to compare actual revenues and expenditures to budget items.
 - c. Monthly cash flow reports to analyze the current position and project future needs.
 - d. Monthly reimbursement claims for grants and other state or federal programs.

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7. The trial courts shall apply GAAP, GASB and other government and public entity standards to prepare financial and other required reports. Exceptions should be disclosed in the form of qualifications or footnotes to the financial statements or reports.

7.0 Associated Documents